

THE PART OF ENTERPRISE IN A DEVELOPMENT OF SOCIAL INNOVATION ACTIVITY

NESTOR SHPAK, LILIYA SATALKINA, NATALIYA REVERENDA, ROSTYSLAV BUDYNSKYI

Abstract: *Today social component of innovation activity is a new challenge as well as a strong platform for successful development of enterprise. In several countries social innovation activity becomes a product of usual business with its profit expectations. The paper seeks to fill a research gap regarding the development of social innovation activity from the point of enterprise activity. For the achievement of the determined aim within the paper there were distinguished the conceptual aspects of enterprise SIA. Generalizing and comparing the experience of several European countries in terms of social entrepreneurship.*

Keywords: *ecosystem of social innovation activity, enterprise, macro-level, social innovation activity.*

JEL Classification: *O31, O35*

1. INTRODUCTION

During a long period it is considered that innovations form the basis for competitive enterprise and economics in general. However, modern life determines new challenges for society. That is why, today attention is derived to the search of solutions for these social challenges. Today, all over the world, people try to find the way and new approaches that will allow to support economic development on one hand, as well as provide reasonable use of resources, keeping of ecological safety and forming a base for sustainable development in general. Once W. Churchill said: "However beautiful the strategy, you should occasionally look at the results".

The development of social innovation activity demands the interaction of several elements on macro and micro-levels, that in their turn form the chain for social innovation activity support. An enterprise is an important element in this chain as it forms the source of social innovation activity. That is why, today it is important if innovation strategy of enterprises previews the orientation upon the financial results, but also consideration of those outcomes that it brings to society.

The growing role of social innovations is proved by current researches that show that social innovations rose over £40 billion in 2015 year (£10 billion increase comparing with 2014 year), giving push for the development of investment funds and attracting the additional private capital. Over the period 2012-2015 years an increase in the level of employment and turnover of socially innovative enterprises was approximately 11% (HM Government Report 2016; JP Morgan and GIIN 2015; Vaccaro, J. 2014; Ethex 2015).

In order to form the conception of social enterprise we will propose our definition of social innovation activity of enterprise as a special component of innovation activity of enterprise that is characterized by direction on improvement of social factors for interested groups (consumers, employees etc.) that concern environmental sphere, ethical responsibility for production and partly aspects of health and

well-being, as well as other spheres through the interaction with other participants of social innovation ecosystem (non-profit organizations, government etc).

2. SOCIAL ENTERPRISE AS AN ELEMENT IN A CHAIN OF SOCIAL INNOVATION ACTIVITY DEVELOPMENT

According to the classical approach enterprise forms a main linkage between different elements of general ecosystem of social innovations, such as government, non-profit organizations and society. This increases an importance of the development of social innovation activity of enterprises that may determine not only economic benefits for enterprise itself, but also positive social outcomes of business activity. The place of enterprise in a chain of social innovation activity development is shown on the Fig. 1.

It is worth to remark that social innovation activity (SIA) is mostly correlated with social enterprise and social entrepreneurship. Certain scientists define social enterprise as an organization, that takes the initiative to identify and address important social problems in their activity (OECD 2010; Corner & Ho 2010; Maclean et. al. 2012). Although certain researches share an opinion that "social enterprise" is the term that reflects the organizational model chosen to solve a particular social problem, with a focus on achieving the dual objective of economic and social value (Landabaso & Liesbet 2013). Other researchers, considering the experience of countries who "cultivate" socially-innovative business claim that: "The more successful the business is as a business, the more social good it generates. It embodies the social entrepreneur's way of addressing the world's problems, which is to ask, 'what can I do, that the more I do the more good it does?'" (TEPSIE 2014). Although there are researchers that share an opinion that social enterprise has the dual objective of economic and social value and may employ market-based strategies to accomplish a social or environmental mission and can provide goods or services (or both), operating in any number of sectors (Volynets 2015; Gidron 2014; Harji et. al. 2014; Hardi et. al. 2013).

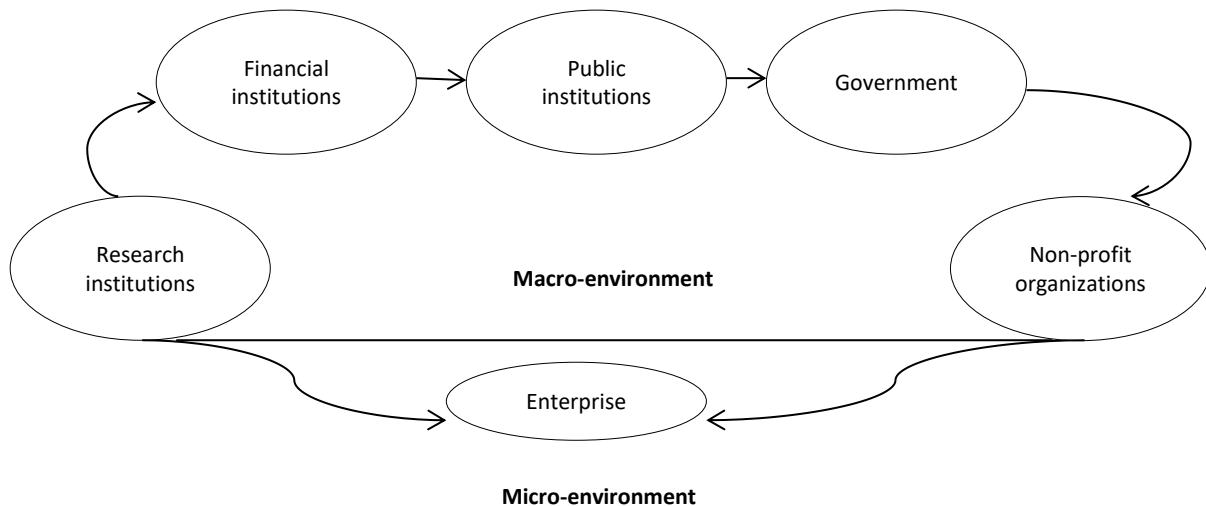


Figure 1 The chain of elements in social innovation activity development

This can also be proved by the fact that investment support of social innovations determines first of all distinct economic benefits for enterprise and investor (Porter 2003; Brest 2013; Etzel 2015). Social businesses focus on social goals and make a profit. These profits are usually reinvested, either fully or partially, into the company. Although investors may have different incentives for social innovations, more than 59% of them look for market rate return (GIIN 2015).

According to Alain Fayolle, professor of Entrepreneurship at EMLYON Business School: “The main goal of social entrepreneurship is to address the need, or demand, that has not yet been addressed by the state or the commercial sector.” He states that “social entrepreneurship aims to better accommodate a social dimension within the traditional economic behavior, to take into consideration social problems, countries and communities contexts and situations, and the plight of socially challenged or disadvantaged individuals.” (Fayolle and Matlay 2012).

In general it is worth to remark that organizations of different sizes, aims, and beliefs can become a social enterprise in case it has a purpose that goes beyond making money. In other words it has to have social cause, that can be measured by the scale of the potential positive impact an organization can as a result of its activities. According to an EY Social Entrepreneurship publication there are several characteristics that differ social enterprise from a traditional business (EY 2014):

- creation of a positive impact on society (socially or environmentally);
- realization of its activity as an independent organization;
- financial self-sustainability and independence from donations and subsidies;
- profit is allowed, but the financial goals are supportive of the company’s societal mission
- dividends paid to shareholders are reasonable;
- environmentally conscious;
- transparent.

In general it is worth to remark that the following characteristics mostly correlate with non-profit organizations as any business (and enterprise is usually a subject of business) is primarily oriented upon the possibility to gain

profit opportunities. Nevertheless the development of social innovation activity will be possible only in case when it will concern the more units of business.

That is why we propose our definition of social enterprise as the business unit that in its activity follows the dual aim of financial sustainability as well as social orientation, forms innovation strategy that orients on the solving of social challenges in different fields.

3. ECOSYSTEM OF SIA IN GENERAL. EXAMPLE OF SEVERAL COUNTRIES

According to the classical approach the ecosystem of social innovations is formed by four elements: private sector, public sector, informal sector (research sector), non-profit sector (The Young Foundation 2012).

Analyzing relevant literature it may be determined, that one of the instruments that may characterize the level of social innovation ecosystem in a most complete way is Social Innovation Index. This index includes four components: policy and institutional framework, financing, entrepreneurship, society. There was analyzed the Social Innovation Index in several countries with different territorial location (Western and Eastern Europe, Asia, Africa, North America) and different level of social innovations development. On Fig. 2 there is represented the dynamics of Social Innovation Index in 2016 year by country.

It is interesting to consider the experience of Sweden as it is a world leader in innovation: the country invests in average 3.6% of GDP in R&D; according to Business School’s Global Innovation Index it takes 2-nd place (Europe tomorrow). In the National Innovation Strategy from 2012 social innovation is seen as an important tool to provide new solutions or innovative ideas and methods to deal with societal challenges (Bassi et al. 2016). As well, there is an extensive network of public and private organizations that cooperate with academic bodies and aim to foster enterprise growth, sustainable business and competitive industry with long-term contributions to society (such as The Knowledge Foundation, The Swedish Governmental Agency for Innovation Systems, The Swedish Agency for Economic and Regional Growth etc.).

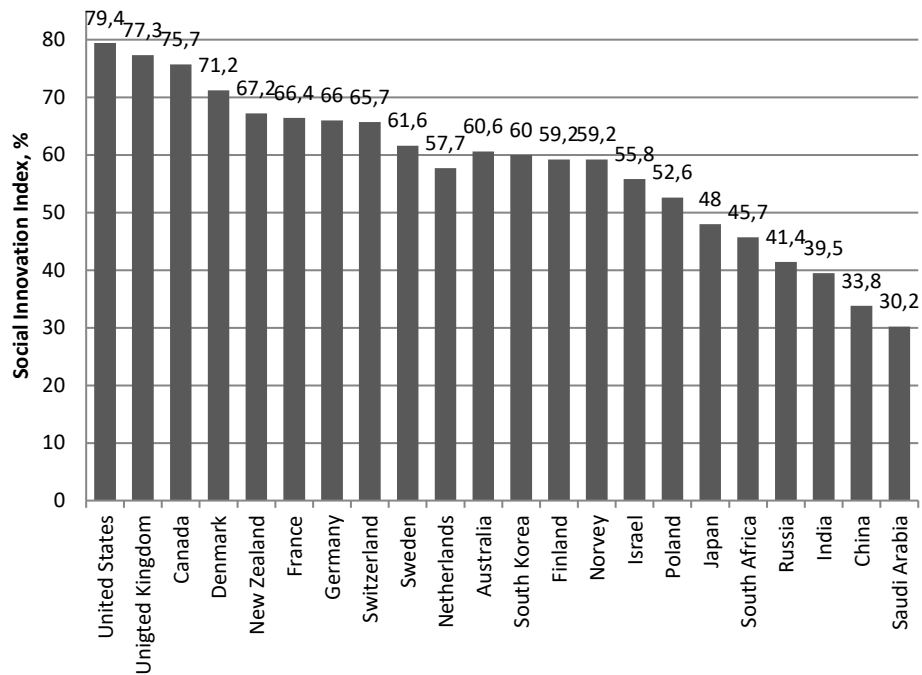


Figure 2 Social Innovation Index by country
 Source: own collaboration

The funding mechanisms depend on supporting structures, mostly private that develop impact investment (like **Leksell Social Ventures**), connect companies with investors, funds and business angels (like Impact invest Scandinavia) and develop new financial solutions including regional microfunds and crowdfunding (Nordisk Ministerråd 2015; Sweden Sverige 2015).

Sweden there are there are no ministries specifically responsible for social enterprises in Sweden. Instead, a number of government agencies have been tasked with supporting the development of the social enterprise market – primarily the Swedish Agency for Economic and Regional Growth (formerly NUTEK and since 2009 Tillväxtverket), the Swedish Agency for Youth and Civil Society and the Swedish Public Employment Service. The support of non-profit sector is determined by the developed networks and mutual support structures designed for social enterprises. For example the Partnership for the Development of Social Enterprises (PUST). The main aim of this organization is to facilitate collaboration, networking and social franchising, provide education and training programme in social entrepreneurship. The Swedish Association for Non-Profit Health and Social Service Providers (FAMNA) supports non-profit health and social service providers. The National Association for Social Work Cooperatives (SKOOPI) has for an aim to provide training for social work cooperatives and create the conditions for starting and running social work cooperatives (European commission 2014).

As for financial support the most common source of external finance is project funding, particularly during the seed and start-up phases. Social projects are funded also by ESF – the Swedish Inheritance Fund, as well as, municipalities and other public agencies. Financial support may be also with public grants and subsidies and financing from private and public foundations, for example Swedish Inheritance Fund. In

a general rank of external financing sources public funding takes the first place. It is followed by private and public grants, as well as financing of municipalities that can supply loans (European commission 2014).

Research support in Sweden previews education and training in a sphere of social entrepreneurship, as well as support of incubators. For example, Inkludera Invest provides non-monetary support and guidance for social enterprises. Sweden has an incubator for social entrepreneurship, that is located at the Centre for Social Entrepreneurship (CSES) in Stockholm. It helps to create operational business models and form social impact indicators. Some universities and higher education institutions provide support for social innovation and entrepreneurship. There also exists Swedish folk high schools and study associations that provide non-formal adult education for support of social entrepreneurship development (European commission 2014).

If we consider the example of Poland it is worth to remark that one of the most well-known form of social entrepreneurship is a social cooperative, that is a new legal form, implemented by Polish law in 2006. By now there are more than 1200 of such cooperatives registered in Poland and almost all are micro enterprises, operating on local markets (Cibor 2014).

In general in Polish economy there are defined following challenges in a sector of social economy (Cibor 2014):

- definition and legitimization of the social enterprise status;
- development of appropriate instruments and mechanisms that may support social economy entities;
- facilitation of economic activity of social units;
- building of a sustainable model of cooperation in the social economy sector;

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- promotion of an importance of the social economy and its popularization in society.

Polish social innovation sector is financed by three main types of instruments: public grants for social enterprise start-ups, financed from state budget; loans for social economy entities, guarantees for social economy (Cibor 2014).

In order to support the development of the social economy in Poland there were established following units (European commission 2014):

- Social economy support centers (OWES), that provide a consulting services and operate at a local or regional level and are spread throughout the country. There are 90 of such initiatives all over Poland that were active as of September 2013.
- A network of five Social Economy Centres (CES) one in each macro-region, but CES are not legal entities, they are projects carried out by various organizations, mostly foundations that themselves are social economy entities.
- National Centre for Social Economy (Krajowe Centrum Ekonomii Społecznej or KCES) that coordinates the work of five CES.

The research support of social innovations is provided by several higher educational institutions that have bachelor degrees in areas such as 'Social entrepreneurship and CSR', post-graduate studies (courses) in 'Social economy' or for 'Managers of social economy' and individual courses, student groups and events related to social entrepreneurship (Ekonomia społeczna). These courses are mostly offered by private higher educational institutions.

An important role in the development of social entrepreneurship in Poland is taken by non-profit organization such as Barka Foundation, established in 1989. It is focusing on social integration of excluded groups and it has become a strong organization active not only in Poland but also abroad, including in the developing countries. As well, since 2011, the Foundation for Socio-Economic Initiatives (Fundacja Inicjatyw Społeczno-Ekonomicznych – FISE) has been organizing an annual competition for the Best

Social Enterprise of the Year. The idea behind the competition is to "reward individuals and organizations that use of market mechanisms for the achievement of social goals (European commission 2014).

There also exist several organisations that group different social enterprises, including (European commission 2014):

- Union of ZAZ Employers and Other Social Enterprises (Polish name: Ogólnopolski Związek Pracodawców Zakładów Aktywności Zawodowej i Innych Przedsiębiorstw Społecznych). It was established in 2012 and is grouping around 40 organisations.
- National Audit Association of Co-operatives of Disabled and Co-operatives of the Blind (Polish name: Krajowy Związek Rewizyjny Spółdzielni Inwalidówi Spółdzielni Niewidomych). It was established in 1992 and includes about 180 co-operatives.
- National Audit Association of Social Co-operatives (Polish name: Ogólnopolski Związek Rewizyjny Spółdzielni Socjalnych). It was established in 2007 and as of June 2013 it was grouping 44 social co-operatives.

4. CONCLUSION

Today the stress on social aspect in enterprise innovation activity makes the strong platform for successful development. It may be even stated that today we need social innovators who could function like social entrepreneurs. Hence, the outputs of the results that are obtained in this paper refer, first of all, to possibility of getting better and more complete understanding of concept of social innovations and such an element in its chain as social enterprise. The paper provides the definition of the phenomenon of social innovation activity within the prism of enterprise activity. As well there is provided a definition of social enterprise that takes to attention the involvement of common business units to social innovation activity. As well, the detailed analysis of social innovation ecosystem on the example of two countries give a full base for understanding the peculiarities of interaction of main elements that form this ecosystem.

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Nestor SHPAK, Liliya SATALKINA, Nataliia REVERENDA, Rostyslav BUDYNSKYI
 Lviv Polytechnic National University, Ukraine
 e-mail: dida_05@ukr.net; Liliya.O.Satalkina@lpnu.ua